strong communities, affordable housing

INDIANA
HOUSING & COMMUNITY
DEVELOPMENT AUTHORITY

overview

The past year has brought significant transformations to Indiana's community economic development landscape. As an industry, our challenge is to navigate this new landscape, not only by adjusting to change, but also by making the most of the opportunities that it provides.

In April 2005, the Indiana Housing and Community Development Authority (IHCDA) began a new strategic planning process to assess its operations and to recast its vision. Regional focus groups, stakeholder interviews, and program analyses have sown seeds for a more efficient, more effective, and more innovative agency. Our goal is to create and preserve opportunities for organizations and communities across Indiana even as the environment around us is taking new form.

In late May, Lt. Governor Skillman instructed each agency within her office's purview to create a strategic plan. The purpose of these plans is to develop a clear vision for each agency's mission over the next four years. The plans guide each agency's activity by identifying specific areas of focus, action steps, and benchmarks. The framework for the planning process focused on the following outcomes:

- Ensuring the efficiency and effectiveness of program delivery;
- Creating a service-oriented culture; and
- Preparing to incorporate new programs into the current structure.

To assist the agency in assessing its operations and charting the future, IHCDA engaged the services of Planning Plus, Inc., a strategic planning and business consultant firm. Planning Plus and its principal, Jan Frazier, have over 25 years of relevant experience. Its clientele includes several industry trade associations and their respective members.

IHCDA sought out various opportunities to engage stakeholders and constituents in open and meaningful dialogue. In April, Sherry Seiwert, executive director of IHCDA, held a series of regional focus groups with community development corporation directors, coordinated by the Indiana Association for Community Economic Development (IACED). Throughout the planning process, Ms. Seiwert also facilitated several roundtable discussions with industry leaders to solicit expertise on specific issues. Planning Plus conducted focus groups with current employees to identify challenges, and recommended issues to address in planning. Stakeholder interviews were also conducted to identify customer satisfaction, issues and challenges, and recommendations for the Agency. The management team also held informal discussions with stakeholders on the direction of the agency. Finally, staff assessed other state housing authorities to gain a better understanding of innovative programs that might be replicated in Indiana.

Information gathered during this process was then presented during a management retreat in June in which managers distilled stakeholder feedback, examined industry trends, assessed organizational capacity, identified critical issues, developed strategic responses, and cast a new vision. In July, an all-IHCDA employee meeting was held to share with the staff the outcomes of the employee focus groups and stakeholder interviews, the proposed Vision and Mission statements, and the first draft of the goals. The Executive Director and the Management Team then met in August to revise the plan and to further define action steps. After sharing the draft with department employees to gain additional input into specific action steps, the plan was presented during the annual statewide conference on Housing and Community Development in September. The draft plan was then presented to stakeholders in eight regional meetings during October. By year's end, managers will compile annual work plans that outline department and personnel goals for 2006.

environmental scan

The public input process was augmented with credible documentation and thorough analysis. Developing a SWOT Analysis (strengths, weaknesses, opportunities, and threats) by means of a manager survey, IHCDA conducted an environmental scan to examine the external and internal operating environment, including:

- Industry trends in homeownership, community development, and rental housing;
- Economic trends for multiple revenue sources, shifts in money sources, and anticipated financial challenges in the future;
- Political and legislative trends, including outcomes from the most recent General Assembly; and
- Effectiveness of programs and services, including how goals and objectives are set and measured.

The most significant and relevant portions of IHCDA's analysis are presented as trends and findings as a reference in the future.

Emerging Markets

Nationally, the Hispanic/Latino population is now the second largest minority population in the country. It is anticipated that by 2015, white non-Hispanic households will be a minority population. Indiana has also experienced substantial growth in minority populations over the past decade. While the white non-Hispanic population has grown 6.5%, households of color have grown by 50% and the Hispanic/Latino population has surged by 122%. This unprecedented growth has exacerbated a burgeoning gap in homeownership rates between white and non-white households.

In 2000, Indiana ranked 15th and 19th in homeownership rates for Hispanic/Latino households and African American households, respectively. When compared to white non-Hispanic households, the gap in homeownership rates for minority households ranges from 25-29 percent. Compared to states with homeownership rates above the national average, Indiana ranks 19th and 22nd for its homeownership gap for Hispanic/Latino households and African American households, respectively. These emerging populations represent a significant business opportunity for the housing and community development industry.

Chart 1: 2000 Homeownership Rates

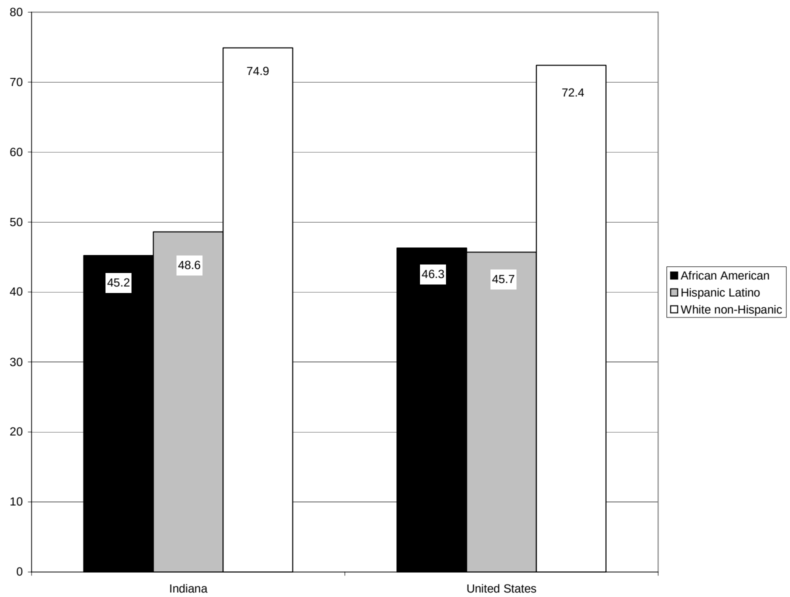
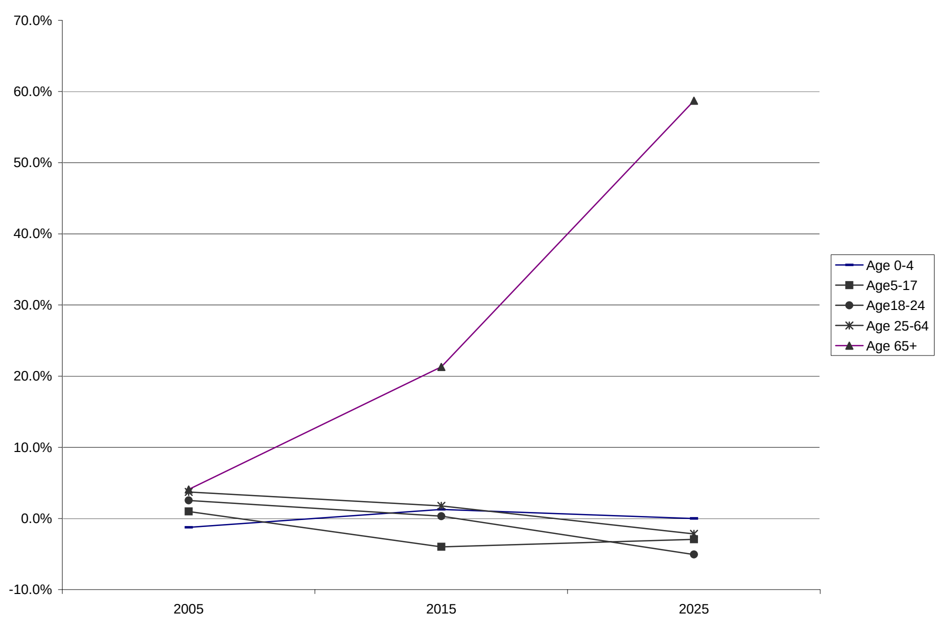


Chart 2: Population Estimates, 2005-2025



In 2005, approximately 800,000 Hoosiers are 65 or older. By 2025, the senior population will have soared to 1.25 million, accounting for 1 in every 5 Hoosiers. In fact, persons over 65 represent the only age cohort projected to increase in Indiana over the twenty years. Moreover, recent surveys of its membership, AARP reports a growing trend for seniors to age in place. This national data is confirmed in survey results compiled for Indiana's 2005 Consolidated Plan. Taken together, these social phenomena have significant implications on the demand for IHCDA's resources.

Interest Rates

Since peaking in the second quarter of 2004, the Treasury Yield Curve, which tracks the spread of short-term and long-term interest rates, has flattened out. This is the result of short-term rates that have increased 9 times in the last 14 months, and the continued decline of long-term rates over the same time period. While this flattened curve can signal a disincentive for lending and credit expansion, the low long-term rates are surprisingly good news for the housing market. While lenders are willing to keep long-term rates low because they are comfortable with the Fed hedging against inflation through increases in the short-term rate, the margin for adjustments can only continue for so long.

Estimates from the Federal Home Finance Board suggest that long-term mortgage interest rates will climb back to levels experienced in the late 1990s. However, according to a small survey of IHCDA's lenders, interest rates have not been an impediment to homeownership for several years, and are likely to remain comfortably low for some time.

Large fluctuations in interest rates, either up or down, affect IHCDA's net income, mortgages outstanding, and its ability to issue bonds. In a low rate environment, IHCDA struggles to keep interest rates competitive on its single-family program. Moreover, older mortgages tend to pre-pay as they are able to refinance at lower interest rates. In addition, the income IHCDA receives from its mortgage portfolio and investment portfolio will fall as the investment rates decline.

By contrast, in a high rate environment, IHCDA's single-family program is able to offer a very competitive product to the market without taking on derivative risks because as rates rise, the spread between the tax-exempt and taxable market widens. IHCDA's net income will rise as we invest our funds in higher-yielding mortgages and securities. Also, prepayments on mortgages slow considerably as people are not able to refinance into lower-rate mortgages.

Finally, federal changes to tax law could have dramatic effects on the Authority. Reducing or eliminating the tax-exemption on bonds would put IHCDA's single-family program out of business. Also, changes to Fannie Mae and Freddie Mac could have severe consequences on the Authority, as they are the two largest buyers of long-term housing debt.

Energy Costs

According to the Indiana State Utility Forecasting Group's 2003 electricity projections, there is going to be a steady increase in the average annual kilowatt hours used by consumers who heat with a source other than electricity—which represents some 80% of Indiana households.

The average annual kilowatt-hours used by non-electric heating customers stood at about 8,000 in 2001. That number is projected to rise to just under 12,000 by 2021. At the same time, there has been a rapid increase in the price of oil and natural gas. An October 2004 article in *Building Operating Management* states, "Wholesale gas prices have been hovering above $6 per million btu for months, roughly double where they were only a few years ago. Many economists see this trend continuing for years to come."[i] The article goes on to explain that these cost increases will also have an impact on the price of electricity, as the use of natural gas for electric power production has been rising at a rate of 7% to 8% per year since 2000.

In short, rising utility costs are likely to have an increasingly severe impact on consumers. This will be particularly true of low and very low-income consumers who already have a tight budget. It will also have a negative impact on those nonprofit agencies that operate low-income rental complexes in which they, as the owner, are responsible for utility costs.

Property Taxes

Indiana's changeover to a market-rate property assessment system has shifted the property tax burden to residential properties, particularly older homes. The General Assembly did pass legislative remedies that provide property tax relief for rental properties. These remedies included:

1) Excluding Federal income tax credits from the assessed value, and
2) Requiring Low-Income Housing Tax Credit developments to pay a minimum property tax equivalent to 5% of the previous year's gross rents.

Despite these legislative remedies, the property tax burden on residential properties was magnified by an implementation strategy that created a one-time correction to a decade-long problem.

Even slight up-ticks in property taxes undermine the cash flow strength of properties that are already financially difficult to develop. Moreover, an increase to homebuyer units prematurely restricts a community's property tax base by pricing a segment of low- and moderate-income households out of the market.

Affordability

On the macro level, affordability is driven by income, housing prices, and interest rates. On a micro level, local markets are susceptible to a variety of factors that influence development and maintenance costs.

US Census Bureau

The US Census Bureau's American Community Survey defines affordable housing as that which requires a household to spend no more than 30% of its income on housing costs. For homeowners, housing costs include mortgages, taxes, insurance, utilities, fuels, and any appropriate condominium or mobile home fees. For renters, housing costs are equated with gross rent, and include rent, utilities, and fuel costs. According to the latest American Community Survey, 255,000 renter households and 274,000 owner households in Indiana are cost-burdened, spending more than 30% of their household income on housing.

National Low Income Housing Coalition

The National Low Income Housing Coalition (NLIHC) analyzes various metrics, such as median income, Fair Market Rents (FMR), and CHAS data, to estimate the amount of income needed to truly afford a Fair Market apartment. Keep in mind that HUD typically establishes its FMR at a price in the 40th percentile. That is to say, 40% of the rental units are priced lower than the FMR. The NLIHC data are available only at the county level.

In 2004, the typical Indiana household would need to earn $24,481per year, or $11.77 per hour, in order to afford a two-bedroom Fair Market Rent apartment.

Table 1: Fair Market Rent Affordability

Location	Hourly Wage Needed to Afford *(at 40 hours per week)*				
	Zero Bedroom FMR	One Bedroom FMR	Two Bedroom FMR	Three Bedroom FMR	Four Bedroom FMR
Indiana	$8.49	$9.65	$11.77	$15.10	$16.07

Self-Sufficiency Standard

Last month, the Indiana Coalition on Housing and Homeless Issues (ICHHI) released a study it commissioned to examine how much income different family types require to adequately meet basic needs without public or private assistance. This income level is called the "self-sufficiency standard." The standard is determined by taking into account the costs of housing, child care, food, transportation, health care, and miscellaneous expenses for several family types, as well as any tax credits a family might receive.

Based on the geographical costs for Marion County, a single-parent household with a preschooler would have to earn $14.20 per hour, or $29,993 annually, just to make ends meet. By comparison, the same family in Grant County or Orange County would need to earn $20,965 or $18,681, respectively. To put these annual incomes into perspective, the self-sufficiency standard for this family size is equivalent to 50-60% of area median income for these counties.

HUD Affordability Index

While the most common housing affordability measure is the 30% rule previously mentioned, HUD also uses the 2.9 industry standard to calculate the home price that should be affordable to a given household. Using this method, the home price is determined by multiplying the household's gross income by 2.9.

The table below compares these two affordability Indices. To calculate the home value using the 30% rule, assumptions were made as to the cost of taxes, insurance, utilities, and mortgage terms. A 30-year fixed mortgage at 8% interest was selected in order to produce a conservative estimate. It also allows an interest rate adjustment to be calculated for analytical purposes.

Given the aforementioned assumptions, the HUD 2.9 index suggests that a household could afford anywhere from $16,000-$34,000 in additional home value. However, that home cost would greatly exceed the 30% rule at the 8% interest rate. In order to meet both criteria, the interest rate must be reduced. The adjusted interest rate column reflects the new interest rate that a household in a particular income category must have in order to purchase a home at the HUD 2.9 Index home and not exceed the 30% rule. The interest rate reductions range from 1.7% to 3.0%.

Table 2: HUD Affordability Indices

Income	30%	HUD 2.9	Adjusted Interest Rate
30,000	67,000	87,000	5.50%
40,000	100,000	116,000	6.50%
50,000	122,000	145,000	6.30%
60,000	155,000	174,000	6.80%
70,000	169,000	203,000	6.20%
80,000	202,000	232,000	6.60%

Assumes: Taxes $75-$175; Insurance $30-$75; Utilities $125-$200; 30-year term at 8% interest.

<u>Housing Affordability Index (HAI)</u>

The Housing Affordability Index, published monthly by the National Association of Realtors (NAR), measures affordability based on median family income and the median price of homes currently on the market. The HAI calculates the minimum income level need to qualify for the median-priced home. The median income is then indexed to the minimum qualifying income. For example, if the median income is equal to the qualifying income, then the HAI would be 100. Put differently, a HAI of 100 means that the median income is just enough to purchase the median-priced home. An index above 100 signifies that a family has more than enough income to afford the median-priced home. Similarly, an index below 100 suggests that a family should look at homes priced below the median. It is important to note that the HAI assumes a 20%down payment on the part of the homebuyer and limits principal and interest payments to 25% of monthly income.

In 2004, for example, the minimum income needed to afford the median-priced home in Indianapolis was $27,936. However, this assumes that a household at this level could make a 20% down payment and qualify for the best interest rate. If a 3% down payment were required at a higher interest rate, the qualifying income would increase to $35,808. Since the median income of $51,400 exceeds both qualifying income levels, both indices are above 100. Specifically, a median-income family earns 82% more than is required to afford the median-priced home with a 20% down payment. Without a down payment, the median income family still has 42% more than it needs to purchase a $121,700 home.

Table 3: Housing Affordability Index

Median Price	Qualifying Income	Median Income	Affordability Index
121,700	27,936*	51,400	182
121,700	35,808**	51,400	142

** Assumes 20% down; 25% income for PI; 30- year term at 6% interest.*
*** Assumes 3% down; 25% income for PI; 30- year term at 6.5% interest.*

<u>Revised Affordability Index</u>

A severe limitation of the HUD and NAR indices is that they do not account for other household debt. Therefore, they tend to overestimate the real disposable income available for housing costs. Consequently, the Indiana Association for Community Economic Development created a new index based on the front- and back-end ratios set forth in IHCDA's underwriting criteria. The Revised Affordability Index (RAI) provides a more conservative estimate as to the affordability of a home because it takes other household debt into consideration.

The table below displays the RAI for Marion County. Using the example of a family of four that makes 80% of AMI (roughly $51,000), the Revised Affordability Index results in an affordable home price that is $4,000 to $28,000 lower than the HAI and HUD indices, respectively.

Table 4: Revised Affordability Index

	One Person		Two Person		Three Person		Four Person	
Percent AMI	Income	Mortgage	Income	Mortgage	Income	Mortgage	Income	Mortgage
30%	$13,450	$0	$15,400	$0	$17,300	$0	$19,250	$0
50%	$22,450	$0	$25,650	-$1,857	$28,850	$13,043	$32,050	$27,944
60% *	$26,796	$3,479	$30,624	$21,304	$34,452	$39,128	$38,280	$56,953
80%	$35,900	$45,871	$41,000	$69,618	$46,150	$93,598	$51,300	$117,579
AMI	$44,660		$51,040		$57,420		$63,800	

**60%; Not official numbers from HUD*

***Mortgage was computed based on several assumptions listed on Calculations Sheet including $600 in other debt*

****Mortgage was taken as the least value between a Front End 29% ratio and a Back End 41% ratio*

Source: *IACED calculations derived from HUD HOME Program Income Limits based on the aforementioned assumptions*

According to Indiana's Consolidated Plans, the number of low-income renter households in the state that spend more than 30% of their income on rent has gone from 159,666 in 2000 to 239,374 in 2005, an increase of 50%. During that same time period, the overall number of renter households in the state that earned less than 30% of Median Family Income rose from just over 100,000 to more than 151,000.

The state of Indiana does not currently have the capacity to address this need through rental subsidies. There are now 6,400 people on the waiting list for the state's Section 8 housing assistance program. The list is currently closed. This is almost twice the number of people currently receiving assistance under the program (3,600).

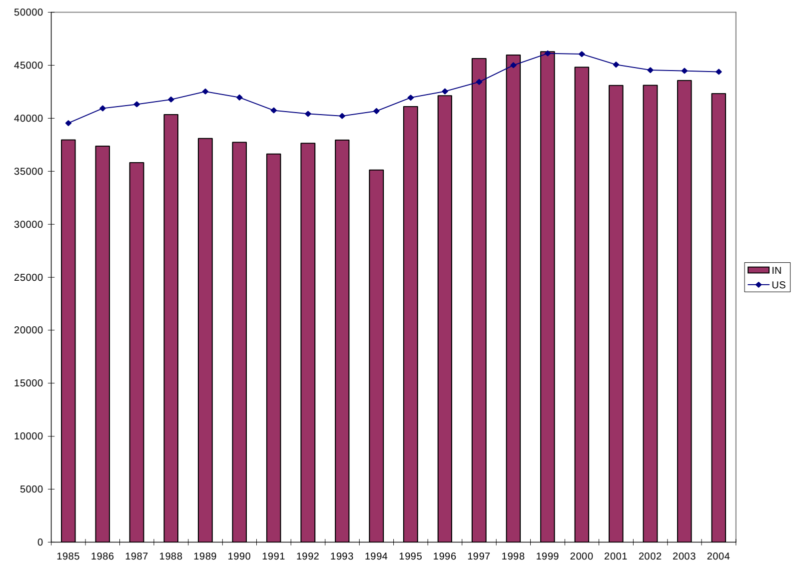
Foreclosure

According to second-quarter 2005 data from the Mortgage Bankers Association, Indiana's foreclosure rate is currently 2.79%. Though this represents a .4% reduction in foreclosures from the same time period last year, Indiana still holds title to the second highest foreclosure rate in the country, second only to Ohio at 3.28%. The national foreclosure rate is 1%. At many points during the last four years, Indiana has had the dubious distinction of having either the highest or the second highest foreclosure rate in the entire country.

According to recent research compiled by the National Association of Realtors, Indiana's foreclosure rate can be attributed in part to downturns in the economy, a high percentage of FHA loans, a low loan-to-value environment, and a lack of appreciation in home values. Indiana's process for litigating foreclosures exacerbates its foreclosure rate because properties remain in the system and are subject to the statistical calculation for extended periods of time.

While Indiana has done well in generating jobs lost from the recent recession, the wages associated with newly created jobs fall short of the high-paying manufactured jobs that were lost. This is reflected in the real median income in 2004 dollars. Real median income peaked in 1999. Currently, the 2004 median income is approximately equivalent to the median income in 1996.

Chart 3: Real Median Income, 2004 dollars



While assets may take many forms, the largest asset owned by the majority of Americans is their home. According to a variety of studies, the impact of housing wealth on consumer spending is four to five times greater than that of stock wealth.[1] During downturns in the stock market, as experienced in 2000, housing wealth steadies consumption and mitigates its potential volatility.

The magnitude of this housing wealth is contingent upon equity, which is driven by the appreciation of home values. Regrettably, Indiana suffers from one of the

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[1] Case, Karl E., Robert J. Shiller and John M. Quigley 2001. Comparing Wealth Effects: The Stock Market Versus the Housing Market. National Bureau of Economic Research Working Paper No.w8606.
Benjamin, John D., Peter Chinloy, and G. Donald Jud. 2003. Real Estate Versus Financial Wealth in Consumption. National Center for Real Estate Research Working Paper.

nation's lowest appreciation rates. Similarly, Indiana's high homeownership rate helps offset the fact that 1 in 5 Indiana households (21.4%) are asset-poor – meaning that they do not have enough savings or other assets to survive at the poverty line for three months if income were to be interrupted. This figure would be more staggering if not for Indiana's housing wealth.

vision, mission, and values

Vision and mission statements are critical to the strategic planning process, as since they provide clear, guiding principles to further define who we are as an organization and why we exist. Quality mission and vision statements create the foundation for action planning and a basis for accountability within the community. Just as strategic planning is both an art and a science, the same is true for the development of vision and mission statements.

Vision

All Hoosiers should have the opportunity to live in safe, decent, affordable housing in economically stable communities.

Mission

IHCDA helps build strong communities by providing financial and knowledge resources to qualified intermediaries throughout the State of Indiana in their development efforts. A primary focus of IHCDA is providing a continuum of housing from homelessness to homeownership, with a focus on low- to moderate-income Hoosiers.

The ***mission*** statement specifies IHCDA's purpose or "reason for being." It is intended to capture the essence of who we are, what we do, and for whom. The mission guides each day’s activities and decisions. It is the primary standard against which IHCDA's plans and programs should be evaluated.

The strategic planning process was extremely beneficial in defining IHCDA’s customers as those institutions and organizations that we touch every day. The mission statement signals a fundamental shift in understanding IHCDA’s customers. While IHCDA administers public dollars, and exercises great care in this stewardship role, it does not interact with homebuyers and renters on a daily basis. Rather, IHCDA’s primary customers are the developers, lenders, investors, and non-profit organizations that obtain funding from IHCDA to serve the end user. End users, such as low- and moderate-income Hoosiers, realtors, local units of government, and local communities, are IHCDA’s secondary customers. This new definition of “customer” necessitates changes in what IHCDA considers to be customer service and how it measures customer satisfaction.

Values

Value statements reflect the core philosophies and belief systems to which an organization adheres or aspires. They set the parameters for the manner in which an organization conducts business, from goal setting to employee selection, and from partnership structure to program implementation. As such, value statements provide a point of reference against which options may be weighed and decisions made.

The following statements reflect IHCDA's core values:

- IHCDA cultivates economically diverse communities with ready access to vital goods, services, and opportunities. We are especially committed to broadening asset development and asset protection opportunities in emerging markets.

- IHCDA encourages innovation by exercising risk and promoting creative solutions to community challenges.

- IHCDA invests in financially sound, well-designed projects that reflect the principles of sustainable development.

- IHCDA helps Hoosiers with special needs to access housing and community services that promote independence, self-sufficiency, and dignity.

- IHCDA embraces our role as a leader and advocate. We initiate and nurture partnerships and collaborations across our industry.

- IHCDA is committed to efficiency, transparency, and effectiveness in our policies and systems. We set measurable and ambitious goals, and evaluate industry progress.

strategic objectives

Operational Strategy: Create a proactive environment that increases both internal and external communication, encourages efficiency and productivity, and fosters innovation and creative problem-solving.

Program Strategy: Prioritize and align funding based on the needs of emerging markets throughout Indiana to ensure the greatest return on investment in our communities.

Program Strategy: Coordinate with government agencies and industry funders to better leverage and target resources.

Program Strategy: Serve a larger and more diverse population of constituents through the development of flexible funding sources.

Program Strategy: Increase asset generation and preservation by citizens of the State of Indiana.

Operational Strategy: Create a proactive environment that increases both internal and external communication, encourages efficiency and productivity, and fosters innovation and creative problem solving.

This operational strategy embodies the values of innovation and efficiency. It governs the back-office activities of the agency. As such, this objective is designed to influence every aspect of the organization.

Over the course of the planning process, stakeholders identified several strategies through which the agency could improve its operations. The strategies of under this objective can be grouped into four categories:

1) Communication;
2) Personnel;
3) Policy; and
4) Technology.

While each of these focus areas could stand alone as an operational objective, they are more cohesive when integrated into one overarching operational objective. Each category influences what business IHCDA conducts, and how it is conducted. Each manager will utilize these strategies in the development of annual work plans for his or her respective department. The common theme expressed by stakeholders across categories was the need for IHCDA to take a more proactive approach in achieving its mission.

Communication

The first area of potential leadership for the agency is to proactively promote IHCDA and its partners through key messages, press events, advisories, advertisements, and other creative efforts. In crafting these messages, IHCDA will strive to emphasize the lives and communities that are changed by the investments made to IHCDA partners.

At it most basic level, this objective serves to provide information to IHCDA's customers regarding its programs and services. IHCDA also collects a great deal of valuable project data from its partners. With a modest amount of analysis, this information has the potential to provide a rich opportunity to publish regular market reports and program highlights. The market reports can be used by developers, investors, and lenders to benchmark project performance. The program highlights will be used to communicate and celebrate the success of the housing and community development industry.

The second communication strategy identified by stakeholders was to proactively engage elected officials and policymakers regarding housing and community development issues and to educate them through briefings, position papers, and site visits.

The third major area for potential improvement is soliciting stakeholder feedback through a variety of formal and informal methods, including exit interviews, customer satisfaction survey instruments, and focus groups.

Personnel

Another area of focus for IHCDA is to develop and implement a performance-based management system that identifies goals and evaluates performance based on achievement of employees. A key component of this performance-based strategy is equipping nascent managers with the requisite knowledge and skills to cultivate a customer-service oriented culture. While IHCDA has a mission-driven and market-smart staff, it recognizes that on-going professional development opportunities are essential to providing quality programs and services. As such, IHCDA is committed to strengthening staff expertise through fieldwork experience and technical training. Finally, IHCDA can ensure consistency and continuity across departments through formalized job descriptions and updated operation and training manuals.

Policy

As managers develop annual work plans and department goals, they will be responsible for identifying and eliminating inefficient systems and extraneous policies that hinder development. One such area that should see dramatic improvement is the application and reporting processes. For instance, managers can eliminate redundant and unnecessary forms, certifications, and signatures. Managers will also identify policy changes as they redesign current programs to effectively and creatively partner with stakeholders.

IHCDA has identified a three-pronged approach to improving program policies through market research. First, IHCDA will better utilize the Consolidated Plan as a mechanism for identifying needs and setting priorities, particularly homelessness and migrant farm worker needs. Second, the Authority will conduct statewide opportunity-based needs assessments that will analyze the proximity of housing to jobs, transportation, and services. Third, IHCDA will contract with a third-party analyst to review market studies submitted to the agency.

Finally, IHCDA will partner with stakeholders to identify and track outcome measures. This will serve multiple purposes, such as championing the success of the industry and evaluating the impact of the Authority's investments.

Technology

IHCDA recognizes the potential to improve its productivity and service delivery through technological applications. An integral milestone of this objective will be the development and implementation of “paperless” application and reporting processes. If IHCDA is to truly move to a paperless system, user-friendly and intuitive web interfaces are essential.

Collecting real-time market data from stakeholders through online reporting is another opportunity for IHCDA to capitalize on technology as an information and communication tool. When transferred into a Geographic Information System, these program data can be analyzed spatially.

IHCDA can also realize efficiency and customer service gains by utilizing wireless technologies for field monitoring and inspections. For example, when an IHCDA staff member visits a project site, notes are currently recorded by hand and keyed into program software upon his/her return to the office. The use of technology could streamline and speed up this process.

Program Strategy: Prioritize and align funding based on the needs of emerging markets throughout Indiana to ensure the greatest return on investment in our communities.

Increase housing opportunities in proximity to jobs, transportation, community services, and amenities.

IHCDA has a storied history of funding county-level needs assessments and project level feasibility and market studies. Aside from the Consolidated Plan process, the last statewide analysis was conducted five years ago.

What all of these analyses fail to capture is how economic growth and housing development intersect to create livable communities. As a result, investments have used a needs-based model rather than an opportunity-based model. The former stops at quantifying the number of income-eligible or cost-burdened households in a community. The latter advances the analysis and identifies areas of housing and economic opportunity for low-income households. This can take the form of creating a community environment that attracts a certain population, such as the Creative Class as proposed by Richard Florida. It could also take the form of providing targeted households with access to housing options near a place of employment or community services.

The cornerstone strategy for this objective is to develop an opportunity index. The methodology for this index is applied from diversity measures used in sociology circles. Diversity indices calculate the exposure, isolation, and clustering of one population group to another. While race and income diversity are important considerations in affordable housing development, similar indices can be calculated for the exposure, clustering, and isolation of affordable housing to job centers, transportation nodes, or community services.

<u>Balance the concentration and type of housing in the market.</u>

For nearly three decades, the U.S. Department of Housing and Urban Development has been committed to a philosophy of de-concentrating the development of housing for low-income households. However, it has only been in the last four years that researchers and analysts have begun to quantify the tipping point—the point at which the development of affordable housing is beneficial or detrimental to the overall community. For example, studies show that LIHTC and Section 8 housing can have a positive impact on the a neighborhood, as long as there are fewer than 5 sites within 2,000 feet. The point is that scope, type, and concentration of housing affect the quality of a neighborhood.

Similar to the Opportunity Index, the concentration and type of housing both influence and are influenced by the types of jobs created and the wages earned in a community. If service-sector jobs are being created with compensation of less than $10 per hour, then a community should ensure that quality housing for these employees is readily available. Likewise, the availability of a broad range of housing types and price points can be a selling point to corporations that may be considering relocating to a certain community.

<u>Provide housing options that accommodate the desire to age in place.</u>

In recent surveys of its membership, AARP reports a growing trend for seniors to age in place. This national data is confirmed in survey results compiled for Indiana's Consolidated Plan. Persons over 65 represent the only age cohort projected to increase in Indiana over the next twenty years.

This social phenomenon has significant implications on the demand for IHCDA resources. Understanding where and what type of housing seniors and special needs populations prefer and need will be essential for aligning IHCDA's programs and investments.

Two practical strategies for IHCDA to pursue include strengthening universal design standards in IHCDA projects, and investing greater resources for owner-occupied rehabilitation so that residents can make the necessary repairs to retain their asset, or modify it to accommodate changes in the owner's physical condition.

Reduce the gap in homeownership rates between white and non-white households.

The past decade has demonstrated substantial growth in minority populations throughout Indiana. While the white non-Hispanic population has grown 6.5%, households of color have grown by 50%, and the Hispanic/Latino population has surged by 122%. Nationally, the Hispanic/Latino population is now the second-largest minority population in the country. It is anticipated that by 2015, white non-Hispanic households will be a minority population. This unprecedented growth has exacerbated a burgeoning gap in homeownership rates between white and non-white households.

In 2004, the homeownership rate in Indiana was approximately 74%. When this figure is broken down by race and ethnicity, a growing disparity quickly emerges. The homeownership rates of African American, Latino, and Asian American households range between 45-49%. While Indiana's overall homeownership rate ranks consistently in the top 5 nationally, it ranks in the bottom half for its differential between white and non-white homeownership rates. To put this into greater perspective, the homeownership rate of households earning between 30-50% of area median income is 53%. These emerging populations represent a significant business opportunity for the housing and community development industry. IHCDA will work with industry partners to better target existing resources to these emerging markets.

IHCDA will convene a working group of key decision-makers in organizations critical to providing access to homeownership, ensuring a comprehensive and collaborative approach to providing homeownership opportunities to emerging markets across Indiana. This group will be responsible for identifying obstacles to emerging market homeownership, and establishing a joint marketing approach to increase awareness and knowledge of resources and tools available to achieve homeownership for these target markets. This will help industry leaders to better target the variety of financial tools and resources that are already available from the public and private sector, making them more available to meet the needs of emerging populations.

Program Strategy: Coordinate with government agencies and industry funders to better leverage and target resources.

<u>Reconvene the Interagency Homelessness Council to implement priorities in its plan to end chronic homelessness.</u>

According to the 2005 Indiana Consolidated Plan, approximately 100,000 Hoosiers experience homelessness over a period of one year. It is estimated that on any given day, there are 16,000 homeless Hoosiers. This breaks down to 4,600 homeless individuals and 11,300 people belonging to homeless families with children.

These figures do not take into account the hidden homeless. In areas where services are limited, this population of Hoosiers finds shelter first with family and friends. After these relationships are exhausted, they live in cars, campgrounds, or other makeshift housing, hidden from mainstream services. Eventually, they make their way to larger cities in search of institutional supports. Unfortunately, these neighbors often reach a provider that must turn away 30-50% of its requests for services. In recent years, this surge in demand has been exacerbated by the closure of 15 shelters.

Earlier this year, the Interagency on Homelessness Council's plan to end chronic homelessness was accepted by Governor Daniels. One priority from the plan is to ensure that individuals are not being released/discharged from state and local facilities/institutions into homelessness, including youth transitioning out of foster care and prisoners re-entering their home communities. As a response, IHCDA will utilize HOME funds to provide tenant-based rental assistance to four target populations, including prisoner re-entry, transitional housing, persons with mental health addictions, and persons with HIV/AIDS. IHCDA will also work with the Indianapolis Resource Center for Independent Living and area hospitals to improve their discharge planning.

IHCDA will encourage the use of the Homeless Management Information System for chronically homeless people to reduce duplication, streamline access, ensure consistency of service provision and generate data to carry out this plan.

<u>Collaborate with state agencies to target resources for community revitalization</u>.

Presently, we are working with the Family and Social Services Administration to transfer to IHCDA several key homelessness and low-income service programs relating to housing and quality of life.

The thought process here is to regroup all of the housing and community development functions geared towards revitalizing communities back together under one umbrella, where greater attention can be paid. Many of these programs have received less attention where they were not central to the agency's mission. IHCDA believes that with a new structure, these programs will be re-energized and leveraged for increased dollars with a new focus.

IHCDA also looks forward to collaborating with Main Street Indiana and the Indiana Department of Tourism to target resources that capitalize on the economics of place and leverage the natural assets of a community.

IHCDA also sees potential in collaborating with the Indiana Economic Development Corporation (IEDC) on connecting IDA participants to IEDC's microenterprise loan program.

Partner with USDA to rehabilitate and preserve 515 projects.

Comment [L1]:

USDA 515 projects are a long-standing resource of affordable rental housing in rural areas of Indiana. As these properties age and suffer from deferred maintenance, they present a risk to maintaining a vital component of quality, affordable housing.

To address this issue, IHCDA applied and received a loan of $2.25 million from USDA to invest in 515 projects that are most in jeopardy. In some instances, investments will be made to owners to rehabilitate a project to ensure that its residents can enjoy a safe and decent home. In other instances, investments may be made to assist in the transfer of ownership to a developer who will preserve the property as an affordable asset in the community.

IHCDA is also interested in partnering with USDA to explore creative conversion alternatives, such as seasonal farm worker housing or housing cooperatives.

Coordinate policy and program functions with other industry partners.

IHCDA is committed to convening industry partners to discuss and coordinate policy concerns and program functions. IHCDA will utilize the Indiana Housing Assistance Review Team as a mechanism to facilitate this on-going dialogue.

One purpose of this dialogue is to provide developers, nonprofits, and local units of government with better service. For example, Federal Home Loan Bank and IHCDA often invest in the same projects. Currently, both organizations monitor their investments independently. Preparing for two separate reviews costs the project owner/manager time and money. Consequently, FHLB may contract with IHCDA to conduct one monitoring for both organizations and simply share the results from the inspection.

Another potential benefit of this collaboration is ensuring consistency and quality. For instance, USDA, FHLB, and IHCDA all require homeownership counseling for one or more of their respective programs or products. Homeowners across Indiana would enjoy greater access and better quality counseling and education services if all three organizations referred customers to certified counseling agencies.

Finally, IHCDA can partner with industry associations and intermediaries to strengthen the capacity of developers and service providers.

Program Strategy: Serve a larger and more diverse population of constituents through the development of flexible funding sources.

Create a 501(c)3 that would attract flexible capital and operating resources.

Developing livable communities requires a comprehensive approach to community revitalization. In 2004, IHCDA awarded 12 communities planning grants to create comprehensive development plans. The plans outlined improvements in infrastructure, utilities, housing, commercial development, business growth, and public amenities. Communities with approved plans were then afforded the opportunity to apply to a $1,000,000 revolving loan fund for the purpose of developing new construction, single-family homebuyer units to in-fill vacant city lots. Unfortunately, the funds were not flexible enough to allow communities to address other housing needs or economic development opportunities identified in the revitalization plans.

In an attempt to attract flexible capital from all sectors, IHCDA has hired a Grants Specialist. IHCDA will also identify the best vehicle for attracting and distributing these funds.

Identify and secure permanent funding for the Housing Trust Fund.

Indiana’s Low-Income Housing Trust Fund was created by Hoosier lawmakers in 1989. The Trust Fund is used to help develop housing that is affordable to low-income Indiana families. While the Trust Fund has helped create more than 1,400 units of affordable housing, there is not a steady source of revenue flowing into the Fund.

From 1989-1992, the state legislature appropriated a total of $1,635,000. In 1993, it also authorized IHCDA to issue $5 million in bonds payable on behalf of the Trust Fund, to be purchased by the Indiana Board for Depository Institutions (PDIF). Of the available $5 million, a total of $1,196,550 was used to purchase a $5 million zerocoupon US Treasury Strip maturing in 2013 in order to repay the PDIF loan. After legal fees, a total of approximately, $3.8 million was invested in the Trust Fund. Since 1993, the Authority has contributed $8.85 million to the Trust Fund.

From its inception, the Trust Fund has executed roughly $16 million in loans and grants. Every Trust Fund dollar leverages an additional $4.70 in other funds. The Trust Fund has created over 1400 units of affordable housing. Fifty-four percent of those units are rental, 28% are single-family, and 18% are emergency or transitional housing. Sixty percent of the beneficiaries are white, 35% are African-American, and two-thirds are below 50% AMI.

Indiana needs almost $30 million a year to provide enough affordable housing to meet the need. If the Trust Fund had $30 million a year from a steady source of revenue, it could help create 1100 units of affordable rental housing, 850 units of single-family housing, or 2800 units of emergency housing every year. This would generate $134 million in income for other industries, create more than 1600 jobs, and provide over $68 million in new wages for Hoosier workers.

IHCDA is working with a broad coalition of organizations of stakeholders from across the state to form the Indiana Low-Income Housing Trust Fund Campaign. The goal of the Campaign is twofold: first, to make important structural changes to the Trust Fund in 2006, and second, to secure a permanent source of revenue for the Trust Fund during the 2007 legislative session.

<u>Develop single-family loan product that serves non-USDA and non-entitlement communities.</u>

Thirty-five Indiana communities are not eligible for USDA mortgage products, and are not designated as participating jurisdictions by HUD. In these markets, developers are experiencing a phenomenon in which the availability of a loan product is driving the location of home purchases. For instance, the City of Marion is not eligible for USDA mortgage products. Consequently, income-eligible households are choosing to purchase outside of the city limits to take advantage of USDA financing. This can often thwart the community's revitalization efforts.

IHCDA is interested in creating a product that would mirror the RD leverage product and could be used in the 35 non-USDA eligible and non-PJ cities. The eligibility requirements would be similar to the USDA product.

Since 1999, 370 Rural Development leveraged loans have been originated in IHCDA's portfolio. Two hundred and eleven of those loans were by Huntington Bank and Pathfinders. Neither are currently participating lenders. Of the 159 remaining leverage loans, all but 13 were National City loans. This represents, on average, roughly 24 loans per year. The average RD loan was approximately $74,000, totaling roughly $1.75 million per year.

IHCDA anticipates originating approximately 25 loans totaling $2 million. It is also presumed that we would use as many of USDA's guidelines as appropriate. As with the RD leverage product, there would be a small first mortgage through First Home Plus, and a large second mortgage that IHCDA would provide.

USDA uses several nonprofits to package its loans, and its loans are serviced out of its regional office in St. Louis. IHCDA has approached USDA regarding its interest in servicing these loans. If IHCDA allowed buyers to purchase and rehabilitate a home, it is expected that the combined cost would not exceed the appraisal and maximum loan limits set forth by USDA. The nonprofit partner would oversee that rehabilitation work to ensure that it was done to specification.

Develop below market, non-income restricted, mixed-use loan product.

In order to better meet the diverse and comprehensive development needs in communities across the state, IHCDA will create a second niche product that is place-based rather than income-restricted. It will be used to invest in mixed-use developments rather than exclusively residential projects. In this respect, the product would lend itself to downtown redevelopment projects with commercial down and housing above. The funds could be used for acquisition, holding costs, infrastructure, new construction or rehab. It is anticipated that this product would offer a below market interest rate and accept a more lenient equity position. Loan amounts will likely be small and range in the area of $100,000-$350,000.

Program Strategy: Increase asset generation and preservation by citizens of the State of Indiana.

Launch statewide homeownership counseling and education system.

While Indiana's homeownership rate consistently exceeds the national average, it has remained relatively constant (around 71%) in each census since 1960. In 2004, Indiana's homeownership rate was 5% higher than the national average across all income strata. As more Hoosiers experience the American dream of homeownership, many are finding it more and more difficult to retain the greatest asset they will ever own. As a result, IHCDA is committed to implementing the following recommendations from the HomeEC report published by the Indiana Association for Community Economic Development:

- Provide seed funds for statewide market campaign and program templates;
- Provide funds to train and certify organizations and counselors;

- Commit $1,000,000 annually to Homeownership Counseling;
- Secure flexible sources of funding for pre- and post purchase counseling; and
- Partner with intermediaries and lenders to refer homebuyers to certified counselors.

Reduce foreclosure rate of IHCDA portfolio.

Indiana has long held the dubious distinction of having the highest or second highest foreclosure rate in the nation. While the reasons for this are numerous and complex, IHCDA can implement several strategies to mitigate this troubling trend within its own portfolio. First, IHCDA can strive to secure flexible funding for post-purchase counseling. Second, the Authority can begin referring its delinquent loans to certified post-purchase counselors. On a macro scale, IHCDA will seek out creative ways to support and partner with regional fraud and foreclosure prevention task forces to identify systemic problems to the foreclosure issue. One such strategy is to commission a study with the Center on Urban Policy and the Environment to analyze the clustering affect of foreclosures.

Partner with Health and Human Services to make Indiana's IDA program a national model.

Indiana has long been recognized as a leader in the asset development field, in large part due to its Individual Development Account Program. Because the state invests $1 million dollars annually to this program, it is exempt from federal guidelines established under the Assets for Independence Act. As a result of this exemption, the U.S. Department of Health and Human Services would like to work with Indiana to develop innovative strategies that might be used in future model legislation.

One area of interest is taking the program to scale. Currently, the program serves approximately 1,000 households annually. This represents .3% of the eligible households in the state. In addition to greater state investment, IHCDA is interested in partnering with businesses to partner with nonprofit organizations, lenders, and community foundations to create employer-based development accounts that could be used for job training or to purchase a home in proximity to the company. Moreover, there is interest in and need for a vehicle through which IDA savings can be invested beyond the four-year program period. Such a vehicle would be attractive for IDA holders who are saving to purchase an asset for a dependent (e.g., college education). Finally, the IDA program would benefit from an exception to the earned income requirement for deposits when the participant's sole source of income is retirement or disability.

Create investment account for entrepreneurs to start or expand a business enterprise.

Participants in Indiana's IDA program primarily use their savings to advance their education or to purchase a home. Very few actually use their savings to start a business. This is in part because of the length of the program, the modest savings cap, and the participant's bankability—or lack thereof.

To fill this gap, IHCDA will pilot an investment account targeted to households up to 100% AMI. IHCDA will match a participant's savings up to $2,000 per year for two years. The program will be marketed through partner lending institutions. At the end of two years, the participant would have up to $8000 that could be used to leverage a business loan ranging from $28,000-32,000. To be successful, the Enterprise Savings Account would be developed as a bank product rather than a social program. It is expected that banks would screen applicants and require a business plan within 24 months.

outcomes

The key to assessing program effectiveness is measuring the right things. Performance measures should capture the most important aspects of a program's mission and priorities. Appropriate performance measures should include outputs and outcomes that are tracked annually and over time.

Outputs can include process measures (e.g., paper flow), attribute measures (e.g., customer satisfaction), and efficiency measures (e.g., per-unit cost). Outcomes describe the intended result or consequence that will occur from carrying out a program or activity. Outputs are the goods and services produced by a program or organization and provided to the public or others. Outcomes are of direct importance to beneficiaries and the public generally.

Outcomes are the measurable changes experienced by individuals, families, organizations, and/or communities as a result of exposure to or participation in programs or services. Outcomes may be reflected in a variety of ways, including "behavior, skills, knowledge, attitudes, values, condition, or other attributes."[2] They represent the end result of a given effort or activity.

Managers are more likely to manage against outputs rather than outcomes. This is because output data is collected and reported more frequently, and outputs more typically correspond to activities and functions being directly controlled, as opposed to focusing on results. Nevertheless, outputs should help track a program's progress toward reaching its outcomes.

Federal programs that ICHDA administers have reporting requirements as established in the Program Assessment Rating Tool (PART) and Government Performance and Results Act (GPRA) of 1992, which require federal agencies to devise performance indicators, benchmarks, and targets for all programs they administer to increase the effectiveness and accountability of these programs.

Management and performance indicators can also be benchmarked against other industry standards and similar organizations. For instance, to the extent appropriate, the single-family lending department can benchmark aspects of its performance against Mortgage Banker Association Standards. The robustness of these metrics is qualified due to fundamental differences in program delivery. Underwriting standards must take into account the additional paper, procedures, and policies requisite in closing an FHA loan as opposed to a conventional loan. Based on stakeholder

[2] United Way of America. "Measuring Program Outcomes: A Practical Approach." 1996. Retrieved October 5, 2005 from the Outcome Measurement Resource Network, http://national.unitedway.org/outcomes/resources/What/intro.cfm.

feedback, IHCDA is well aware that one impediment it faces in the marketplace is the complexity of executing the requisite paperwork on its mortgage products.

Similarly, as a statewide participating jurisdiction, IHCDA can also benchmark itself as appropriate to its counterpart in other states. For instance, Indiana is consistently ranked in the top quartile in HUD performance measures. Indiana excels particularly in the areas of such as target households below 50% area median income, leveraging private dollars, and its disbursement rate.

For each identified goal, a method has been identified to track success through the use of benchmark data. Baseline measures will be established by year-end 2005 in each area. Once baseline metrics are established, progress will be measured and reviewed by the management team on a monthly basis.

In terms of measuring program effectiveness, as departments develop program goals to support broader agency goals, benchmark measures will be identified.

What We Know

Investments in the development of affordable housing have a positive impact on the state's economy. According to data from the School for Public and Environmental Affairs (SPEA) at Indiana University at Indianapolis,[3] an investment of $100,000 in new construction affordable housing[4] will generate an additional $74,804 in income for other industries, creating 0.9 FTE jobs and wages of $38,244. A similar investment in rehab construction will generate an additional $79,695 in income for other industries, creating 1.7 FTE jobs and wages of $46,184. This means more property tax collections, income taxes, and sales taxes for state government.

Table 5. Outcome of Investment in Affordable New Construction Housing

Size of Annual Investment	Leverage[5]	Total Output	Multi-Family Units[6]	Single-Family Units[7]	Income Generated	Jobs Created	Wages Earned
$1,000,000	$5,000,000	$6,000,000	55	29	$4,488,240	54	$2,294,640
$5,000,000	$25,000,000	$30,000,000	275	145	$22,441,200	270	$11,473,200
$10,000,000	$50,000,000	$60,000,000	550	290	$44,882,400	540	$22,946,400

Table 6. Outcome of Investment in Affordable Rehab Construction Housing

[3] Analysis done by Drew Klacik of the School of Public and Environmental Affairs (SPEA) at UPUI.
[4] The report does not differentiate between rental housing and single-family housing.
[5] Based on HCDA funded projects, every $1.00 of investment leverages approximately $5.00 in other funds.
[6] This uses an average subsidy of $18,200, the same subsidy used in determining the need for rental housing.
[7] This uses an average subsidy of $34,600, which the subsidy necessary to build a single family house, rather than an average of the subsidies necessary to both build single family homes and provide down payment assistance for the purchase of existing homes.

Size of Annual Investment	Leverage	Total Output	Multi-Family Units Produced	Single-Family Units Produced	Income Generated	Jobs Created	Wages Earned
$1,000,000	$5,000,000	$6,000,000	55	29	$4,781,700	102	$2,771,040
$5,000,000	$25,000,000	$30,000,000	275	145	$23,908,500	510	$13,855,200
$10,000,000	$50,000,000	$60,000,000	550	290	$47,817,000	1020	$27,710,400

While these numbers are impressive, it might help to consider an example of the impact that investing in the Housing Trust Fund can have on specific industries. A $1 million investment in the Trust Fund for rehab construction would generate $402,660 in income for the wood products industry. This would lead to an additional $116,160 in wages for workers in that industry.

Building Assets

Michael Sherraden, in his seminal work Assets and the Poor, argues that people move out of poverty through savings and investment. Assets make it possible for households to weather the storm of a layoff, a divorce, or an unexpected illness. They can be converted into cash, or into other valuable resources such as increased earning power. While assets may take many forms, the largest asset the majority of Americans own is their home.

Individual Development Accounts (IDAs) represent one strategy specifically designed to bridge that gap and help people of lower income to save and build assets for the long term. IDAs are matched savings accounts for low-income individuals. For each dollar a saver deposits into his or her account, a match is provided by public, private, or philanthropic sources. The savings and match may only be used to purchase an approved asset. Indiana's state-funded IDA program, one of the first and most successful in the nation, has been operating since 1997. It has helped hundreds of low-income families save and achieve their asset goals of homeownership, postsecondary education or job training, or microenterprise development.

The returns from Indiana's investment in IDAs are substantial. A very conservative 2005 analysis of tax revenues generated by IDA participants estimates that:

- IDA participants who have purchased homes pay approximately $338,221 per year in property taxes.
- IDA participants who have increased their incomes through postsecondary education pay approximately $130,664 per year in new state income taxes.
- IDA participants who have increased their incomes through starting or expanding a small business pay approximately $13,985 per year in new state income taxes.

The positive impact of asset development is not, however, limited to the actual acquisition of the asset. All of Indiana's IDA savers must complete financial education training in order to access their matching funds. Similarly, prospective homeowners seeking to access down payment assistance or low-market rate loans from IHCDA have been required to complete homeownership education and counseling training, which includes basic financial literacy. National research has demonstrated that financial literacy training promotes savings[8], while homeownership counseling reduces default and foreclosure rates.[9] This essential economic education that is provided in conjunction with asset development programming helps Hoosiers become better informed, promotes economic security, and provides the foundation for self-sufficiency and stability.

<u>Housing Balance</u>

Ensuring the proper housing balance in a community is vital to its economic strength. While traditional factors, such as costs and access to qualified labor, continue to play integral role in business location, quality of life issues also significantly influence site selection. Area Development Magazine's 2004 Study of Firms found that 66% of respondents rated housing availability as either "important" or "very important" to the selection process. This is slightly lower than the importance that school ratings (67%) have on business location. As such, companies consider the availability of different types of homes in various price ranges within commuting distance of a new facility. In this respect, housing can provide a community with a competitive advantage.

Access to housing also has benefits for the local labor market. A diverse mix of housing types and prices in proximity to jobs, transportation, and services provide the employees with access to greater opportunity and stability. Tangible benefits include lower absenteeism, reduced traffic congestion, and greater energy conservation.

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[8] Clancy, M., Michal Grinstein-Weiss and Mark Schreiner. (2001). "Financial Education and Savings Outcomes in Individual Development Accounts." Center for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis. Retrieved on September 29, 2005 from http://gwbweb.wustl.edu/csd/Publications/2001/wp01-2.pdf.

[9] Hirad, A. and P. M. Zorn. (2002). "A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling," in Low-Income Homeownership: Examining the Unexamined Goal, (eds.) Retsinas Nicolas P. and Eric S. Belsky. Brookings Institution Press, Washington D.C.

Affordable Housing and Property Values

Recently a set of studies has investigated the impact of affordable housing on property values. George Galster and Clarence Hilberry[10] have done the most comprehensive analysis of federal rental housing programs, including scattered site public housing, Section 8 vouchers, and Low Income Housing Tax Credit developments. Their work found that property values increase with the proper scale, concentration, and context of housing. Likewise property values are susceptible when projects become too large and too concentrated in vulnerable neighborhoods.

Indianapolis is the subject of groundbreaking research in this area as well. Brent Smith, currently on faculty at Virginia Commonwealth University, analyzed the effect of housing activities by community development corporations on the local residential real estate market.[11] Smith's research determined that single-family home values in neighborhoods served by a CDC appreciated more than home values in non-CDC neighborhoods.

The table that follows enumerates some related outcomes demonstrated in research.[12]
Table 7. Household and Community Outcomes

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[10] Galster, George C. and Clarence Hilberry (2001). "A Review of Existing Research on the Effects of Federally Assisted Housing Programs on Neighboring Residential Property Values.
[11] Smith, Brent (2003). The Impact of Community Development Corporations on Neighborhood Housing Markets: Modeling Appreciation. Urban Affairs Review 39(2).

[12] Ellen, Ingrid Gould, Scott Susin, Amy Ellen Schwartz, and Michael Schill 2001. Do Homeownership Programs Increase Property Value in Low Income Neighborhoods? Low-Income Homeownership Working Paper Series LIHO-01.13, Joint Center for Housing Studies of Harvard University.

Green, Richard K. and Michelle J. White 1997. Measuring the Benefits of Homeowning: Effects on Children. Journal of Urban Economics 41(3): 441-461.

Haurin, Donald R., Toby L. Parcel and R. Jean Haurin 2001. The Impact of Homeownership on Child Outcomes. Low-Income Homeownership Working Paper Series LIHO-01.14, Joint Center for Housing Studies of Harvard University.

Rohe, William M., and Michael Stegman 1994. The Impacts of Home Ownership on the Self-Esteem, Perceived Control and Life Satisfaction of Low-Income People. Journal of the American Planning Association 60(1): 173-184.

Rohe, William M. and Leslie S. Stewart 1996. Homeownership and Neighborhood Stability. Housing Policy Debate 7(1): 37-81.

Rohe, William M., Shannon Van Zandt and George McCarthy 2001. The Social Benefits and Costs of Homeownership: A Critical Assessment of Research. Low-Income Homeownership Working Paper Series LIHO-01.12, Joint Center for Housing Studies of Harvard University.

Rossi, Peter H. and Eleanor Weber 1996. The Social Benefits of Homeownership: Empirical Evidence from National Surveys. Housing Policy Debate 7(1): 1-35.

Household	Community
✓ Reduction in housing costs	✓ Short-term investment and jobs
✓ Reduction in consumer debt	✓ Ongoing investment and jobs
✓ Increase in disposable income	✓ Increase in consumer spending
✓ Proximity to opportunities	✓ Broader property tax base
✓ Increase in net worth	✓ Increase in property values
✓ Better quality of life	✓ Better quality of life
✓ Increase in generational attainment	✓ Reduction in public service costs

Below are the ways in which these intended outcomes of IHCDA's activities and programs might be quantified as delineated in this strategic plan:

Household Outcomes

<u>Reduction in Housing Costs; Increase in Disposable Income; and Reduction in Consumer Debt</u>

These three household-level outcomes are closely related. Increasing the affordability of housing for low- and moderate-income households in Indiana correspondingly reduces cost burdens for these families and frees up dollars that these households may use both to reduce debt and to build savings and assets over the long term. A reduction in consumer debt will contribute to a reduction in bankruptcy and foreclosure rates. An increase in savings and assets among low- and moderate-income Hoosiers will help these families maintain a "cushion" if times get tough—and will also help these families climb the economic ladder and create better opportunities for their children.

Indicators for these outcomes may include the following, using data gathered from IHCDA grantees' end-users:

- Number and percent experiencing a reduction in housing costs over time
- Average and median reduction in housing costs
- Number and percent experiencing an increase in disposable income over time
- Average and median increase in disposable income
- Number and percent experiencing a reduction in consumer debt over time
- Average and median decrease in consumer debt
- Bankruptcy rates
- Foreclosure rates

Proximity to Opportunities

Effective community development involves not only the development of affordable housing, but also—and equally importantly—its strategic placement in an economically diverse setting, in close proximity to an array of important opportunities such as transportation, jobs, schools, services, and the like.[13] Access to these opportunities opens the door for low- and moderate-income families to climb the economic ladder. Conversely, high concentrations of low-income housing in a neighborhood without access to these opportunities can limit families' ability to get ahead.

Indicators for this outcome include:

- Number and percent of new affordable housing units developed using opportunity-based models
- Number and percent of IHCDA grantees' end-users reporting access to key elements of opportunity over time
- Number of new opportunity elements created in neighborhoods with existing affordable housing properties

Increase in Net Worth

Net worth—that is, assets less liabilities—connotes a household's overall economic well-being, and is a significant factor in credit scoring, loan underwriting, and other everyday elements of Hoosiers' financial lives. Positive net worth indicates economic stability and a greater ability to weather a financial storm. Access to affordable rental housing, homeownership, savings accounts, small business ownership, higher education, access to good jobs, and lowered levels of debt can all increase a household's net worth.

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[13] University of Minnesota Institute on Race and Poverty. "Opportunity-Based Housing." Sponsored by Leadership Council for Metropolitan Open Communities. June 13, 2001.

Indicators for this outcome may include the following, using data gathered from IHCDA grantees' end-users:

- Number and percent reporting an increase in assets and/or a decrease in liabilities over time
- Average and median asset increase/liability decrease
- Number and percent with positive net worth
- Average and median amount of positive net worth
- Number and percent with enough assets to maintain a standard of living at the poverty level for three months if income were interrupted
- Number and percent with increased credit scores
- Average and median increase in credit scores

<u>Higher Quality of Life</u>

Quality of life is an intangible but essential component of healthy communities. Aspects of quality of life may be measured—such as social, economic, crime, and physical conditions[14]. For instance, residents of owner-occupied homes enjoy greater physical and psychological health. Moreover, one Northwest Indiana study incorporated criteria including diversity, industry and employment, environment, education, health, accessibility, safety, culture, civic engagement, and access to housing.[15] However, perhaps the most relevant test of quality of life is the extent to which the residents and stakeholders in a community believe it to be present.

"Quality of life and standard of living are often used interchangeably. But in fact they are two different concepts that are not necessarily related. Standard of living is generally measured by levels of consumption and thus, by levels of income. Satisfaction of basic needs of food, clothing and shelter are all standard of living issues. Quality of life is related to feeling good about one's life and one's self. One can have a very high standard of living and a low quality of life. And one can have a low standard of living and a high quality of life."

[14] City of Charlotte and Mecklenburg County, N.C. Department of Neighborhood Development. "2004 Charlotte Neighborhood Quality of Life Study." Retrieved October 16, 2005 from www.charmeck.org/Departments/Neighborhood+Dev/Quality+of+Life/home.htm.

[15] Northwest Indiana Quality of Life Council. "Quality of Life Indicators Report." September 2004. Retrieved October 16, 2005 from www.nwiqlc.org/indicators/2004QLCIndicatorsReport.pdf.

Indicators for this outcome may include the following, using data gathered from IHCDA grantees' end-users:

- ❖ Number and percent indicating that they believe their communities are better off now than (predetermined number) years ago
- ❖ Number and percent ranking their quality of life as "good" or "excellent"
- ❖ Decrease in numbers of children with elevated blood levels
- ❖ Number and/or percent of housing units that have eliminated at least one significant health and safety deficiency as a result of housing rehabilitation defined by local codes.

<u>Increase in Generational Attainment</u>

Wealth and assets—like poverty—are frequently transmitted across generations. The children of parents with assets are far more likely to themselves accumulate assets, achieve higher levels of education, enjoy higher incomes, and otherwise benefit from the transmission of wealth.[16, 17] This represents the ultimate long-term goal for the end-users of IHCDA's programs and services: that the investments we make today to help all Hoosier families become financially secure will continue to bear fruit generations later.

Indicators for this outcome may include:

- ❖ Number or percent of transient school population.
- ❖ Educational attainment of children with stable, quality housing.
- ❖ Income earning potential.

Community Outcomes

<u>Employment and Earnings</u>

Investments in the development of affordable housing have a positive impact on the state's economy. According to data from the School for Public and Environmental Affairs (SPEA) at Indiana University at Indianapolis,[18] an investment of $100,000 in new construction affordable housing[ii] will generate an additional $74,804 in income for other industries, creating 0.9 FTE jobs and wages of $38,244. A similar investment in rehab construction will generate an additional $79,695 in income for

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[16] Boehm, Thomas P. and Alan M. Schlottmann. "Housing and Wealth Accumulation: Intergenerational Impacts." Joint Center for Housing Studies of Harvard University, October 2001. Retrieved October 16, 2005 from www.jchs.harvard.edu/publications/homeownership/liho01-15.pdf.

[17] Page-Adams, Deborah and Edward Scanlon. "Assets, Health, and Well-Being: Neighborhoods, Families, Children and Youth." Washington University in St. Louis, Center for Social Development, 2001. Retrieved October 16, 2005 from http://gwbweb.wustl.edu/csd/publications/2001/ResearchBackground_01-9.pdf.

[18] Analysis done by Drew Klacik of the School of Public and Environmental Affairs (SPEA) at IUPUI. The report does not differentiate between rental housing and single-family housing.

other industries, creating 1.7 FTE jobs and wages of $46,184. This means more property tax collections, income taxes, and sales taxes for state government.

Indicators for this outcome may include:

- Short-term job and wages created.
- Ongoing job and wages generated.

<u>Increase in Consumer Spending</u>

According to a variety of studies, the impact of housing wealth on consumer spending is four to five times greater than that of stock wealth. During downturns in the stock market, as experienced in 2000, housing wealth steadies consumption and mitigates its potential volatility.

Indicators for this outcome may include:

<u>Broader Property Tax Base</u>

Property taxes represent the primary source of revenue for local governments and are a critical resource for infrastructure, education, and economic development. Expanding homeownership opportunities, particularly among emerging markets, will result in a broader property tax base, infusing additional resources into communities throughout the state.

Indicators for this outcome may include:

- Homeownership rates overall and amongst emerging markets
- Overall property tax revenues

<u>Increase in Property Values</u>

Promoting quality, well-balanced housing development; supporting the repair and rehabilitation of existing housing stock; encouraging housing development with ready access to opportunities—all these help to increase property values in Indiana. Property owners benefit from increased equity as their homes appreciate, while communities benefit from additional property tax revenue.

Indicators for this outcome may include:

- Average and median property values
- Appreciation rates
- Property tax revenues, as noted above

<u>Higher Quality of Life</u>

Investments in affordable housing and community development also generate ancillary benefits to the quality of a neighborhood. Research indicates that homeowners are more likely to be engaged in civic life through voting and volunteering. Homeowners also invest more in maintaining their property and therefore its value. Recent studies have also linked community revitalization efforts to reductions in crime.

Potential indicators may include:

- Voter participation rates
- Volunteer rates and hours served
- Property and/or personal crime rates
- Decrease in vehicle miles traveled and/or air pollution
- Net migration of young adults

Reduction in Public Service Costs

On a community level, the fundamental goal of IHCDA's activities and investments is to promote strong communities populated by economically stable, self-sufficient households. The hoped-for result of such efforts is, ultimately, to reduce the extent of and need for public service expenditures across the state. This is not to suggest that the need to maintain and support affordable housing and community development activities will disappear altogether. Rather, through today's wise investments and the efficiencies created therein, we seek to lower the long-term costs of preserving affordable housing and retaining access to opportunity for all Hoosiers.

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[i] Audin, Lindsay (October 2004) Heating Up Electrical Costs. *Building Operations Management*. http://www.facilitiesnet.com/bom/article.asp?id=2129.

[ii] The report does not differentiate between rental housing and single-family housing.